Review of interest rate

756. SHRIMATI JAYA BACHCHAN: Will the Minister of FINANCE be pleased to state:

(a) whether any steps are being taken to encourage Minority-focused Banks by the (a) whether Government has reviewed the interest rate scenario;

(b) if so, the details thereof;

(c) what is the demand indicated by the economy;

(d) whether any correctives are warranted by the economic conditions; and

(e) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) Yes, Sir. Effective from October 18, 1994, the Reserve Bank of India (RBI) has deregulated the interest rates on advances above Rs. 2 lakhs, including the housing loans and these interest rates are determined by the banks themselves with the approval of their Boards of Directors subject to Banchmark Prime Lending Rates (BPLR) and spread guidelines. In order to enhance transparency in banks' pricing of their loan products, banks have been advised to fix their BPLR after taking into account (i) actual cost of funds (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/ capital charge and profit margin and ensure that the BPLR truly reflects the actual cost. Individual banks, therefore, determine interest rates to be charged to a particular borrower subject to BPLR and spread guidelines. Given the prevailing credit market in India and the need to continue with concessionality for small borrowers, the practice of treating BPLR as the ceiling for loans upto Rs. two lakhs continues. However, Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of loans of purchase of consumer durables, loans to individuals against shares and debentures/bonds, other non-priority sector personal loans, etc.

The Reserve Bank of India (RBI) has given freedom to commercial banks with effect from 22nd October, 1997 to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). As such, the rates of interest on deposits are determined by the banks themselves.

(c) to (e) RBI had stated that the outcome for interest rates depends mainly on the outlook for inflation, growth prospects and investment demand and it is not possible to predict short-run movements in interest rates.

Rate of interest charged on usage of credit cards

757. SHRIMATI JAYA BACHCHAN: Will the Minister of FINANCE be pleased to state:

(a) what is the rate of interest being charged by banks on the purchases and the cash advances given to credit card holder;

(b) whether it is a fact that the interest rate is exorbitant and in case of some banks, it ranges from 42 to 48 per cent;

(c) if so, what are the reasons that Government has not so far given any thought of taming the banks on the interest rate to save customers from being fleeced; and

(d) whether Government is considering a proposal to bring a law on the subject?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) to (c) As per Master Circular on Credit Card operation

dated 2nd July, 2007 issued by Reserve Bank of India (RBI), credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their Benchmark Prime Lending Rate (BPLR) and regardless of the size. However, RBI has advised the banks that the annualized percentage rate (APR), the method of calculation of APR, late payment charges including the method of calculation the manner in which the outstanding unpaid amount is to be included for calculation of interest, etc. on credit card dues should be indicated by card issuing banks in the 'Welcome Kit' and monthly statement. Banks have also been advised not to levy any charge that was not explicitly indicated to the cardholder at the time of issue of card and getting his/her consent. Further, credit card scenario is being constantly monitored and instructions to banks on their credit card operations are issued by the RBI, on an ongoing basis.

(d) No, Sir.

Role of Foreign Institutional Investors (FIIs) in volatile sensex trends

758. SHRI RAJKUMAR DHOOT: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that short covering by Foreign Institutional Investors (FIIs) has been contributing towards volatile sensex trends in India;

(b) if so, the details thereof; and

(c) the steps taken by Government to protect the interest of small investors?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) The movement in stock market indices is a function of the perceptions of investors domestic and overseas, retail and institutional—about the economy, the sector and the company. This perception is influenced by many factors including the macro-economic environment, growth potential of the economy, corporate performance, domestic and international events, and market sentiments. Taking into account the turnover of Foreign Institutional Investors from October, 2006 to October, 2007 *vis-a-vis* the total turnover, an analysis done by SEBI reveals that there appears to be no casual relationship between foreign institutional investment and changes in the stock market index.

(c) SEBI is keeping a constant vigil on the market, irrespective of the levels of the Sensex and has taken immediate action wherever warranted. SEBI and the Exchanges have put in place systems and practices to promote a safe, transparent and efficient market and to protect market integrity. The systems include advanced risk management machanisms comprising on-line monitoring and surveillance and various limits on positions, margin requirements, circuit filters, etc. which reduce the scope for excessive volatility in the market.

Allocation of funds from income tax collected during 2006-07

759. SHRI RAJKUMAR DHOOT: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that over 99 per cent of income tax collected is being spent on education, health, employment etc.

(b) if so, the details thereof;

(c) the amount of income tax collected during 2006-07 and allocated for education, health and employment; and

(d) what are the major schemes in these fields for the benefit of common man?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) to (c) In terms of Article 266 of the Constitution of India, all